Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

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Federal Communications Commission
Office of Secretary

In the Matter of	)	
	)	
Allocation of Costs Associated with	)	CC Docket No. 96-112
Local Exchange Carrier Provision of	)	
Video Programming Services	)	

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REPLY COMMENTS OF MULTITECHNOLOGIES SERVICES, L.P.

MultiTechnologies Services, L.P. ("MTS"), submits these reply comments in response to the Notice of Proposed Rulemaking ("NPRM") in the above-referenced proceeding. MTS operates private cable/telecommunications systems in several regions of the United States.

This proceeding was precipitated by the Telecommunications Act of 1996, which authorizes telephone companies to provide video programming directly to subscribers by any of several means. As a result, LEC network facilities may now be used to provide video programming and other competitive offerings that are not subject to Title II regulation. As the NPRM explains, "[t]he basic problem addressed in this proceeding is how to allocate common costs between the nonregulated offerings that will be introduced by local exchange carriers and the regulated services they already offer."[1]

The Commission seeks comment on several alternative cost allocation procedures that might be used to resolve this "basic problem." For the reasons set forth in the comments filed by the General Services Administration ("GSA") and the National Cable Television Association, Inc., ("NCTA"), MTS supports the Commission's proposal to allocate common costs based on a "fixed factor" and it agrees with the conclusion of GSA and NCTA that a fixed factor of 75% or greater for video transmission would be appropriate.

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1 NPRM ¶ 2.

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As noted by NCTA, the use of direct assignment for costs associated with the loop plant will be impossible once it is being used to deliver telephone and video services.[2] Further, because loop plant facility costs primarily are fixed, they are traffic insensitive. Thus, a usage-based allocation scheme will not result in a cost causative allocation.[3] Indirect assignment also should be rejected. As the Commission suggests in the NPRM, indirect assignment methods may lead to a cost allocation that bears no relation to actual cost causation and that is easily manipulated by LECs.[4]

The allocation of costs based on a fixed factor, however, will reduce administrative burdens both on the Commission and on LECs, protect telephone ratepayers from excessive charges, and allow the Commission to keep regulated costs at or below that which would be expected for a stand-alone network. For these reasons, a fixed factor should be used to allocate all common costs in an integrated network, including loop plant, interoffice transmission and switching, and network related expenses.

Moreover, because broadband video networks are far more costly than narrowband telephone networks, the vast majority of the costs associated with an integrated video/telephone network should be attributable to the video portion. Indeed, the economic analysis relied upon by GSA and NCTA indicates that approximately three-quarters of the incremental cost of an integrated video/telephone network is attributable to video transmission.[5]

Accordingly, MTS agrees with the suggestion that the Commission use a fixed factor of at least 75% for video and 25% for telephone to allocate common costs in an integrated network. Use of a fixed factor of lower than 75% for non-regulated activities would vastly overstate any efficiency gains that telephone

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2 Comments of NCTA at 6.
3 NPRM ¶ 19.
4 Id. ¶ 34.
5 Comments of GSA at 4 and Attachment A; Comments of NCTA at 17 and attachment.

ratepayers may enjoy from an integrated network and would allow LECs to cross-subsidize their entry into competitive markets.

Respectfully submitted,

MULTITECHNOLOGIES SERVICES, L.P.

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June 7, 1996